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Chad's Economy: A War Casualty

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An Intelligence Memorandum

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An Intelligence Memorandum

*Information available as of 19 March 1982
has been used in the preparation of this report.*

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This memorandum was prepared by [redacted]
[redacted] Office of African and Latin American
Analysis. Comments and queries are welcome and
may be addressed to the Chief, West-East Africa
Division, ALA [redacted]

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The paper was coordinated with the Office of Global
Issues and the National Intelligence Officer for
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Chad's Economy:
A War Casualty [REDACTED]

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Summary

The Chadian economy—weakened by the 17-year-long civil war and by limited natural and human resources—faces another dismal year. Fighting among competing political factions resumed following the withdrawal of Libyan forces in late 1981 and threatens to undo the modest gains achieved under the relative calm of Libyan occupation. Chad will have little opportunity to rebuild its economy without an end to the factional strife.

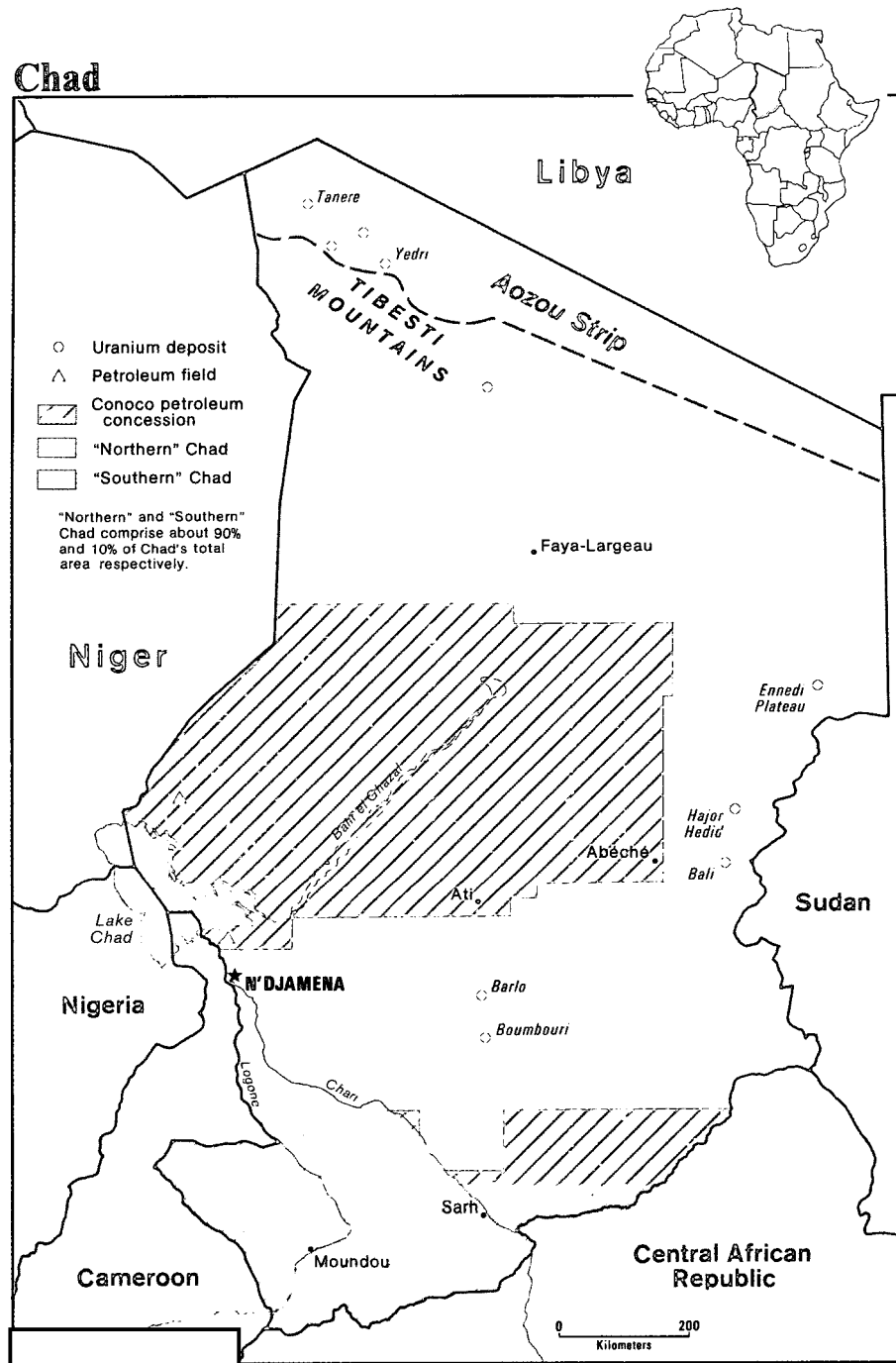
Even with an end to hostilities, economic reconstruction will be a long and painful process. The war has disrupted the country's businesses and banks, shut down most of its few light manufacturing enterprises, and all but eliminated foreign investment. Agriculture—largely cotton and food crops—has also been hit hard, further weakening exports. For the past several years, N'Djamena has depended on foreign aid to pay for the bulk of imported goods and services. In addition, the French continue to provide the direct budgetary support necessary to pay civil servants and keep the government operating.

The need for foreign capital to revive the economy could be a useful tool to bring the various Chadian factions to the negotiating table. Western aid:

- Could have a favorable impact on both the pace and direction of a political settlement in Chad.
- Would go far toward limiting Libyan influence over the direction of peace negotiations and whatever government emerges.

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Chad's Economy:

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A War Casualty [REDACTED]

The Economy at a Glance

Landlocked Chad—one of the world's poorest countries—is handicapped by an unskilled population, a paucity of mineral resources, and a narrow range of exports. GNP per capita stands at \$100 to \$110 annually, the lowest in Africa and the third lowest among all less developed countries (see table 1). Nearly all of the country's limited resources are found in the southernmost 10 percent of the country. The remainder is largely arid desert inhabited by nomadic herdsman. Transportation is difficult; most roads are unpaved, damaged by the war, or neglected. Moreover, the French built the roads to facilitate the flow of exports rather than the development of internal trade. As a result, most commercial traffic moves east and west, with very little trade between the north and south [REDACTED]

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Agriculture is by far the most important economic activity in Chad. Farming is the primary source of income for more than 85 percent of the population and accounts for almost all of the country's foreign payments receipts. About 90 percent of Chad's export revenue comes from the sale of cotton alone. Consequently, Chad's economic health depends heavily on the size of the cotton crop and on developments in the world cotton market. The rest of agriculture is largely subsistence farming (mainly millet, sorghum, groundnuts, and rice), nomadic livestock herding, or fishing [REDACTED]

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Chad's poorly developed manufacturing sector consists mainly of light industries processing cotton, meat, sugar cakes, textiles, and beverages. Shortages of raw materials, electric power, and markets have kept this sector operating below capacity. Production also has been hurt by the deterioration in security over the past three years. [REDACTED]

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The increase in internal strife also temporarily ended Chad's hopes of becoming self-sufficient in oil. Recent information is limited, but [REDACTED] Chad has 200 million to 300 million barrels in recoverable petroleum reserves around Lake Chad and in the Moundou region in the south (see map). Developing these deposits would require costly, sophisticated recovery techniques to compensate for low gas pressure in the reservoirs and the high wax content of the oil. In addition, a pipeline would have to be constructed to transport the petroleum to market. [REDACTED]

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Table 1**Chad: Selected Socioeconomic Indicators**

	Chad	Averages for Sub-Saharan Africa
Adult literacy, 1976 (<i>percent</i>)	15	27
Urbanization, 1980 (<i>percent</i>)	18	21
Life expectancy at birth, 1979 (<i>years</i>)	41	47
Population growth rate, 1970-80, (<i>average annual percent</i>)	2	2.7
Per capita income, 1979 (<i>US \$</i>)	110	411
Labor force in agriculture, 1979 (<i>percent</i>)	85	71

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Farmers planting millet in
semidesert regions of northern
Chad.

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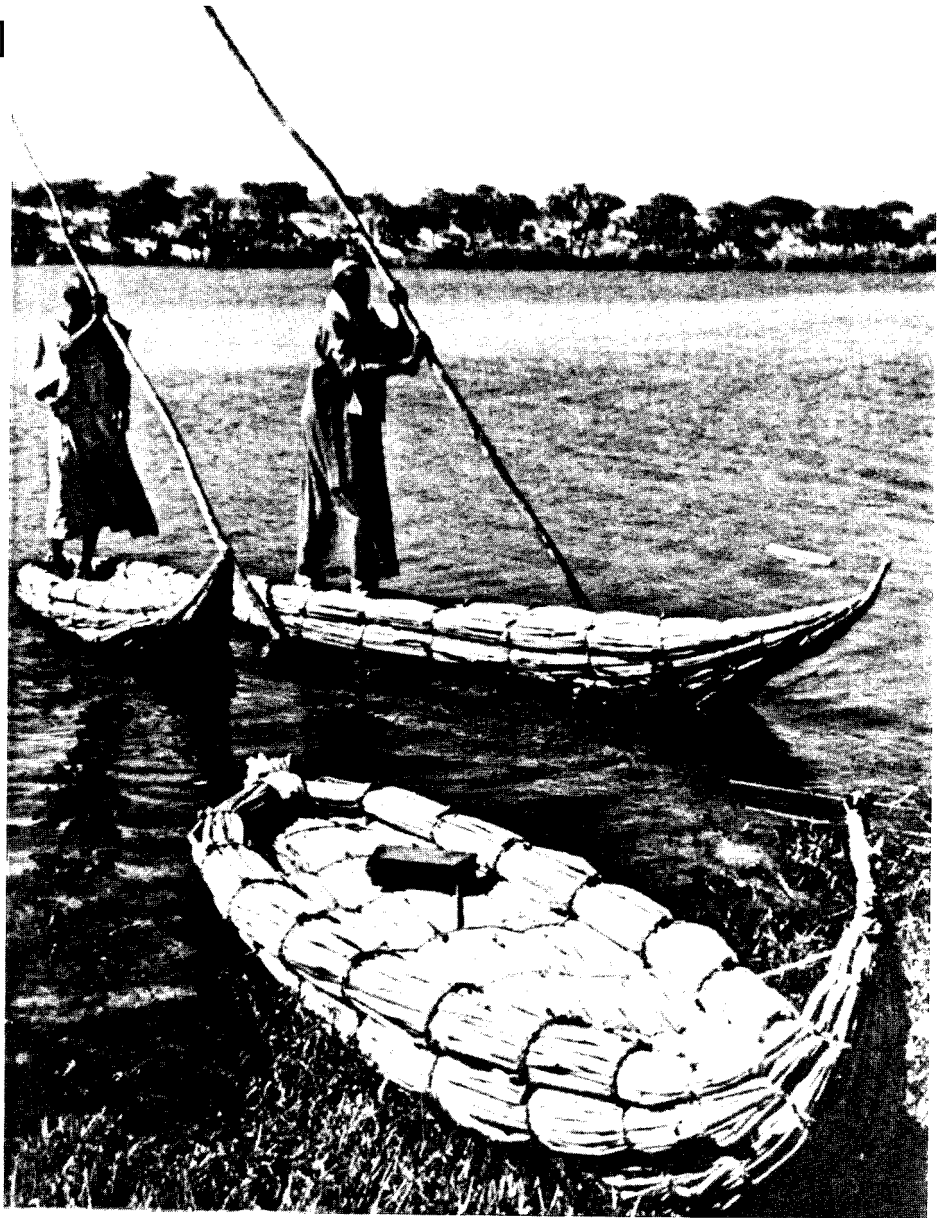
The concession that Conoco holds is the most promising. The company completed one successful well before it ceased drilling operations and stopped work on a pipeline to a small refinery near N'Djamena in 1979. The refinery would have covered local consumption requirements of 1,000

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Local fishermen bring in their
catch on Lake Chad [REDACTED]



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barrels per day and eliminated the country's dependence on Nigeria for imported petroleum. Few other natural resources have been proven. [REDACTED]

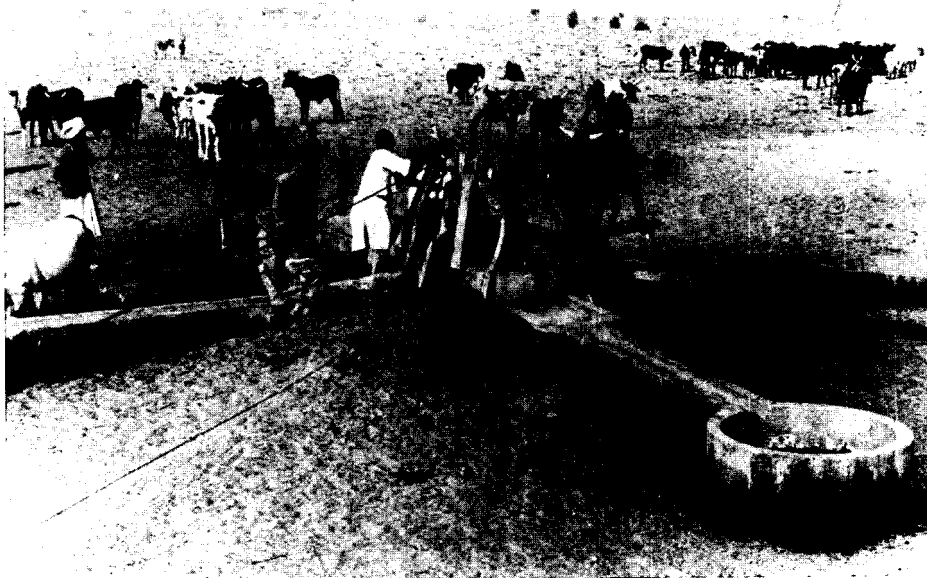
¹ According to the US Bureau of Mines, northern Chad's rugged Tibesti Mountains have uranium deposits that reportedly compare favorably with the rich ore mined in neighboring Niger. No detailed exploration has been done, however, since the French effort in the late 1960s. As a result, there is no hard evidence that uranium exists in commercial quantities. Moreover, even if the ore was plentiful and profitable, the area of the alleged deposits is currently under Libyan control. [REDACTED]

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Nomadic herdsmen watering livestock at one of few wells in northern Chad.



Europe Outremer, 1977 ©

Typical village in southern Chad



Africa Report, Jan 1965 ©

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The French Legacy

The decision of Chad's French colonizers to develop economic resources in the more ethnically cohesive and politically stable southern region did much to fuel traditional animosities between the Muslim north and the Christian and animist south. The south became a French enclave while the north remained a region of nomadic herders. Paris concentrated its economic and technical support on developing a thriving cotton industry with most exports going to France. The French also developed nearly all of the south's rudimentary financial and industrial institutions and imposed the French educational system in the area [REDACTED] 25X1

Little changed with Chad's independence in 1960. The French transferred authority in N'Djamena to the southerners and used the presence of French troops to ensure that the government remained in pro-French hands for nearly two decades. On the economic front, French financial and technical assistance paid government salaries and Paris provided experts to keep the economy running. As in colonial days, the overwhelming share of French aid went to southern Chad. Paris also covered Chad's chronic international payments deficits through the African franc zone and guaranteed the convertibility of the Chadian currency. Moreover, the French maintained their preindependence position as N'Djamena's largest trading partner, supplying about half of Chad's import needs and purchasing most of the country's cotton exports. [REDACTED]

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*The Economy as a Victim of Factional Strife**The First Two Decades*

With the outbreak of the Muslim insurgency soon after independence in 1960, government efforts to strengthen and diversify the economy took a back seat to escalating defense needs. As a result, Chad's gross domestic product increased during the 1960s only slightly faster than the growth in population. Moreover, the current account was constantly in deficit during the period because of chronic trade and service shortfalls brought on largely by a worldwide decline in the price of cotton [REDACTED]

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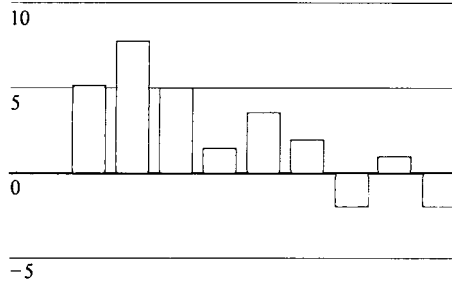
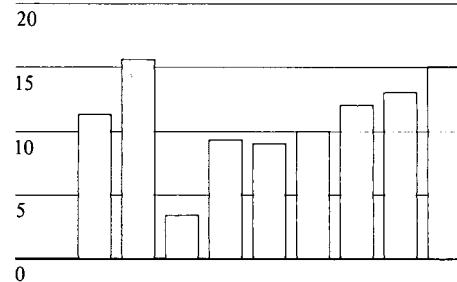
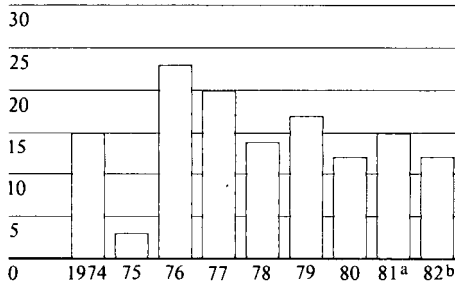
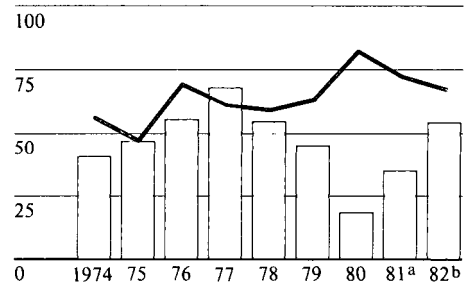
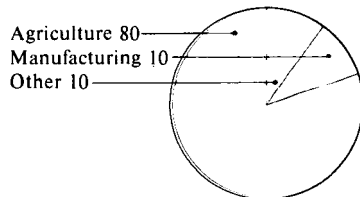
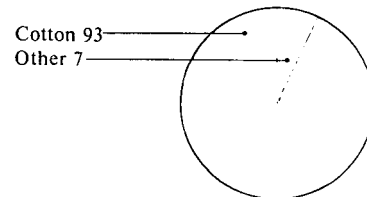
During the early 1970s, the prolonged Sahelian drought dealt Chad's economy another crippling blow. Agricultural production, especially cotton, fell to a fraction of normal levels, affecting export receipts and almost all other aspects of economic activity (see chart). Real growth declined by nearly 15 percent during the 1970-74 period. The return of the rains, and a time of relative political calm—from 1975 to early 1979 under the Malloum regime—helped the economy recover most of its losses. The recovery was shortlived, however, because the toppling of the Malloum government by Muslim insurgents led to another round of fighting and economic decline. [REDACTED]

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Secret**Chad: Economic Indicators**

Note change in scales

Real GDP Growth
Percent**Consumer Price Inflation**
Percent**Foreign Exchange Reserves, Yearend**
Million US \$**Cotton Production and Prices**
Thousand tons, ¢/pound**Composition of GDP, 1981^a**
Percent**Composition of Exports, 1981^a**
Percent^a Estimated.
^b Projected.

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Table 2

Million US \$

Chad: Current Account and Debt Position

	1974	1975	1976	1977	1978	1979	1980	1981 ^a	1982 ^b
Exports	70.5	57.9	100.8	106.7	90.6	70.9	53.1	58.9	55.0
Cotton	50.5	48.5	83.9	90.9	70.6	62.5	48.4	54.7	50.0
Imports	83.0	119.7	115.3	142.4	179.9	98.7	88.5	109.8	90.0
Trade balance	-12.5	-61.8	-14.5	-35.7	-89.3	-27.8	-35.4	-50.9	-35.0
Services and transfers	-41.2	-50.8	-60.6	-85.6	-102.2	-83.6	-50.2	-57.0	-50.0
Current account	-53.7	-112.6	-75.1	-121.3	-191.5	-111.4	-85.6	-107.9	-85.0
External debt	53.5	67.1	95.4	116.5	156.5	171.7	195.0	220	NA
Debt service ratio (percent)	3.3	6.0	4.1	10.0	14.0	15.3	14.2	NA	NA

^a Estimated.

^b Projected.

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Malloum's ouster ushered in a period of intense ethnic violence in the capital and other cities resulting in the mass departure of southerners. With them went the expertise needed to run the government and other essential services. Banks closed and barter became the primary mode for local commercial transactions. [REDACTED]

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Short-lived Glimmer of Hope

The arrival of Libyan troops at the request of President Goukouni in October 1980 and the ensuing lull in the fighting allowed the economy some breathing room. The economy especially benefited from Tripoli's decision to channel as much as \$40 million per month into Chad. Although a sizable portion of these funds was pilfered by Chadian civilian and military officials, enough reached the marketplace to support some economic reconstruction and rehabilitation projects and a 25-percent increase in imports (see table 2). The decline in military activity also prompted many farmers who had turned to subsistence farming to shift back to cotton. Even so, the economy did little more than make up for some of the production losses incurred during the previous year. [REDACTED]

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The Year Ahead

The Libyan withdrawal late last year and renewed factional fighting will probably undo the modest gains achieved in 1981. The loss of Libyan money makes it impossible for Chad to finance construction and other investment. The resumption of fighting may also force farmers to hold back on this year's cotton harvest, precluding any chance of paying for essential imports with foreign exchange earnings. Inflation probably will become more serious as consumer demand remains far ahead of supply [REDACTED]

A key element in the country's economic health during the year will be the extent to which the French are willing to replace Libyan aid. [REDACTED]

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[REDACTED] much of the economic aid is being diverted to support the war effort. Additional amounts continue to be embezzled by government officials. A French delegation recently visited Chad to discuss the diversion of funds, and its findings could influence heavily whether Paris continues to provide critically needed assistance. [REDACTED]

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Long-Term Economic Needs

Neither peace nor foreign assistance would bring quick improvement for the Chadian economy, with the exception of the cotton industry. Cotton production could be improved fairly rapidly provided planters—predominantly French—are convinced that political stability has returned. Output would also benefit from better availability of seeds, fertilizers, and extension services. Major changes also would have to be made in procedures for the purchase and marketing of cotton—currently the responsibility of the grossly mismanaged, government-owned organization COTONCHAD. [REDACTED]

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Chad's pressing long-term economic needs can be addressed only with foreign help. One priority will be rebuilding the cattle industry, devastated by years of drought. Chad will also have to expand the production and distribution of electric power—a critical element in any program to improve the country's rudimentary manufacturing base. [REDACTED]

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Chad's most pressing need is for a more balanced transportation network, particularly an all-weather road system in the north and east. An aid program aimed at improving the transport system would provide economic benefits by opening the interior to livestock raising and by expanding dramatically the number of potential markets for local industries. The extension of roads into these long-neglected areas also would be an important element in the long process toward developing a sense of unity among Chad's disparate ethnic and tribal groups. [REDACTED]

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Implications for the US and Other Western Powers

Even in its weakened condition, the economy will figure prominently in any peace negotiations between the warring factions. The southerners will want to use the south's greater economic resources as a lever to enhance their role in the new government. In addition, they will probably insist on keeping the majority of the income generated there. The northerners, particularly if they continue to be led by rebel leader Hissein Habre, are certain to reject such conditions as they would deprive the north of funds needed to establish even a nominally modern economy. [REDACTED]

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Western donors could have a favorable impact on both the pace and the direction of a political settlement in Chad through attractive offers of economic assistance. As in the case of the Zimbabwe accord, the prospect of a sizable aid package could be an important ingredient in bringing the various factions to the bargaining table. Moreover, a well-designed proposal would moderate whatever influence Tripoli might have on the negotiating parties [REDACTED]

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Nonetheless, there are many pitfalls that could doom Western aid efforts. Northern leaders probably would turn down any proposal that does not immediately benefit their area. They would view any aid program that favors the south—the more potentially productive and less war-damaged part of the country—as a confirmation of their long-held belief that the West is not interested in improving their lot. Western donors also could encounter problems if they insist on tight control over disbursements to minimize the illegal diversion of funds. For most Chadians, corruption—like civil war—is an accepted way of life. [REDACTED]

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Should Western aid—or diplomatic efforts—fail to prod the factions to the bargaining table, Libya's opportunities to exploit the situation almost certainly would be enhanced. With Libyan leader Qadhafi scheduled to become Chairman of the Organization of African Unity this summer, it is unlikely that he will resort to military intervention. Instead, he probably would meddle behind the scenes or employ economic aid to influence events. The Libyans might propose an aid package similar to the one recently concluded with the Rawlings regime in Ghana, which offers concessionary oil sales and unspecified economic and technical assistance. Libya's ability to carry through with its promises, however, is limited by its lack of skilled manpower and cash flow problems related to the world oil glut. Nevertheless, Qadhafi will use whatever commitments he makes to press the Chadians to form a government dominated by northern radicals amenable to Libyan guidance. [REDACTED]

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The ability of other potential regional donors—Nigeria, Egypt, and Sudan—to support Western aid efforts or to offset Libyan proposals is not promising. The Chadians probably will be wary of any Nigerian offers given Lagos's tendency to use its economic leverage in a heavyhanded manner. It cut off oil shipments in 1979, for example, when N'Djamena did not fully support various Nigerian peace initiatives. Some Chadians also will be wary of any Egyptian and Sudanese offers because both Cairo and Khartoum are too closely identified with Habre's faction. In any event, all three governments suffer from severe economic and financial problems of their own, which preclude their willingness or capability to extend more than token amounts of aid. [REDACTED]

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